

TREATY BETWEEN THE UNITED STATES AND
ICELAND TO FACILITATE THEIR DEFENSE
RELATIONSHIP

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

THE TREATY BETWEEN THE UNITED STATES OF AMERICA AND
THE REPUBLIC OF ICELAND TO FACILITATE THEIR DEFENSE RE-
LATIONSHIP, WITH RELATED MEMORANDUM OF UNDERSTAND-
ING, SIGNED AT NEW YORK ON SEPTEMBER 24, 1986



SEPTEMBER 30, 1986.—Treaty was read the first time, and together with
the accompanying papers, referred to the Committee on Foreign Rela-
tions and ordered to be printed for the use of the Senate

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LETTER OF TRANSMITTAL

THE WHITE HOUSE, September 30, 1986.

To the Senate of the United States:

With a view to receiving the advice and consent of the Senate to ratification, I transmit herewith the Treaty between the United States of America and the Republic of Iceland to Facilitate their Defense Relationship, with related Memorandum of Understanding, signed at New York on September 24, 1986. I transmit also, for the information of the Senate, the report of the Department of State with respect to this Treaty.

Iceland is a vital United States ally that provides defense facilities of strategic importance to the defense of the United States and NATO. Recently, a troublesome issue has arisen concerning the transportation of cargoes to the base in Iceland, an issue that could impair the critical United States-Iceland defense relationship. Although for approximately 14 years such cargoes had been transported exclusively by Icelandic shipping companies, under U.S. cargo preference laws they have more recently been carried primarily by a United States carrier, which entered the trade in 1984. The Government of Iceland has taken the position that because Iceland's economy and security depend upon its shipping lines, and because of our mutual defense interests, Icelandic lines should have the opportunity to compete for participation in this trade. Iceland's serious concern about this defense issue has been expressed at the highest levels. This Treaty will resolve this matter and will further the cooperation of the United States and Iceland in essential areas of defense.

The Treaty provides an exception to inconsistent cargo preference law with regard to transportation of cargoes shipped between the United States and Iceland for purposes of the 1951 United States-Iceland Defense Agreement. Under the Treaty, transportation of such cargoes shall be provided by vessels of the United States and vessels operated by Icelandic shipping companies on the basis of competition pursuant to the Treaty. Any such competition is to result in contract awards that ensure that both United States flag carriers and Icelandic shipping companies are able to maintain a viable presence in the trade. The related Memorandum of Understanding provides for implementing arrangements necessary to ensure achievement of these objectives.

Because of the unique circumstances involved, this Treaty does not represent a change in the Administration's general policy concerning cargo preference or a precedent for other agreements.

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In view of the important national security interests furthered by this Treaty, I recommend that the Senate consider this Treaty as soon as possible, and give its advice and consent of ratification of the Treaty, with related Memorandum of Understanding, during this session.

RONALD REAGAN.

LETTER OF SUBMITTAL

DEPARTMENT OF STATE,
Washington, September 26, 1986.

The PRESIDENT,
The White House.

THE PRESIDENT: I have the honor to submit to you the Treaty between the United States of America and the Republic of Iceland to Facilitate their Defense Relationship, with related Memorandum of Understanding, signed at New York, September 24, 1986. This Treaty has been negotiated to resolve a vexing issue in our defense relationship with Iceland. That issue concerns transportation of military cargo to and from the base at Keflavik.

Under the 1951 United States-Iceland Defense Agreement Pursuant to the North Atlantic Treaty, the United States and Iceland have long maintained arrangements for the use of facilities in Iceland in defense of Iceland and the North Atlantic Treaty area. For approximately 14 years prior to 1984, vessels operating for Icelandic shipping lines had carried all the cargoes to and from this strategic military base. In May 1984, a newly formed U.S. flag carrier initiated regular service between the United States and Iceland. Since that time, under applicable cargo preference laws, the Department of Defense has shipped cargo for the base at Keflavik on the United States carrier to the extent of its availability. This has sharply reduced the transportation of military cargo on Icelandic shipping lines.

The Government of Iceland has taken the position that because Iceland's economy and security depend upon its shipping lines, and because of our mutual defense interests, Icelandic shipping lines should have the opportunity to compete for participation in this trade. Iceland's serious concern about this situation and the need for an early resolution have been repeatedly conveyed to the United States Government at the highest levels. Iceland has indicated that this matter could affect our longer-term defense relationship, including arrangements for operation of the base at Keflavik.

An early NATO member, Iceland is a vital United States ally, and is crucial to the defense of NATO's North Atlantic sea lines of communication. In the early 1950's NATO requested the United States and Iceland to make arrangements for the base in Iceland to provide for the defense of Iceland and the NATO area. Given the extensive Soviet strategic buildup in the Northern Atlantic region, the United States and NATO have an increasingly vital strategic interest in the maintenance of the U.S. base at Keflavik to protect NATO's position in the Norwegian Sea and the North Atlantic.

Practice over time under the 1951 Defense Agreement has involved participation of both vessels of the United States and vessels operating for Icelandic shipping companies in the carriage of military cargo between the United States and Iceland in support of our defense arrangements there. Equitable participation by vessels of both countries in the carriage of such cargoes for purposes of the Defense Agreement will strengthen the relations of the two Parties and further mutual cooperation in essential areas of defense. In view of the unique nature of our defense relationship, and the unparalleled contribution of Iceland to the vital sea link between the members of NATO, the United States undertook negotiations with the Government of Iceland to attempt to resolve the issue.

These negotiations led to the conclusion of the Treaty between the United States of America and the Republic of Iceland to Facilitate their Defense Relationship. This Treaty and related Memorandum of Understanding would provide an exception to inconsistent cargo preference law with regard to transportation between the United States and Iceland of cargoes for purposes of the 1951 Defense Agreement. Because of the unique circumstances, this limited exception from the cargo preference laws established by the Treaty represents neither a change in the Administration's general policy toward cargo preference nor a precedent for other agreements.

Under the Treaty, transportation services for cargo transported by sea between Iceland and the United States for purposes of the Defense Agreement will be provided by vessels of the United States and vessels operated by Icelandic shipping companies on the basis of competition between United States flag carriers and Icelandic shipping companies pursuant to the Treaty. The Treaty provides that any such competition shall result in contract awards that ensure that both United States flag carriers and Icelandic shipping companies are able to maintain a viable presence in the trade. To ensure achievement of these objectives, the Treaty provides that the Parties are to determine, by implementing agreement, the percentage of cargo transported by sea for purposes of the Defense Agreement that is allocated between vessels operated by Icelandic shipping companies and vessels of the United States on the basis of such competition.

As provided by the Treaty, the Parties have entered into an implementing agreement, in the form of the Memorandum of Understanding between the United States of America and the Republic of Iceland in Implementation of the Treaty to Facilitate their Defense Relationship. It provides, more specifically, that each competition under the Treaty shall result in contract awards to both an Icelandic shipping company and a United States flag carrier such that not to exceed 65 percent of the cargo shall be carried by the lowest bidder and the remainder shall be carried by the next lowest bidder of the other country provided that the lowest bidder is not prevented from carrying additional cargo if the next lowest bidder of the other country is unavailable. The Memorandum of Understanding also contains provisions to ensure that the rates charged by the next lowest bidders will fall within a reasonable framework. The Memorandum of Understanding will enter into force on the date of entry into force of the Treaty and remain in force as long as that Treaty remains in force. It provides for annual review by

the Parties with a view to enhancing competition and ensuring the viability of the carriers of both countries operating in the trade. It may be amended by mutual agreement of the Parties at any time. This provision is intended to permit the Parties to make any necessary adjustments in the implementing arrangements, effective immediately upon agreement, without need for subsequent ratification or other approval.

While not directly related to the Treaty, during the discussions the Government of Iceland agreed to provide the United States Government with a letter setting forth its willingness to consult with United States authorities concerning other shipping matters relating to the United States and Iceland, including any problems that might be encountered by a United States flag carrier in its ability to compete for commercial cargoes.

The Treaty is to remain in force as long as the 1951 United States-Iceland Defense Agreement remains in force, subject to termination by either Party upon 12 months' notice. Article IV specifically provides that the provisions of the Treaty and implementing arrangements concluded pursuant to Article I shall apply notwithstanding any prior inconsistent law or regulation of the United States or Iceland. Article III also provides that the Treaty will not preclude application of measures deemed necessary by either Party to protect its essential security interests. This provision would apply, for example, in times of war or national security emergency.

Conclusion of this Treaty, with related Memorandum of Understanding, marks a significant development in our attempts to ensure continuation of a close and cooperative defense relationship with Iceland. I join with the Department of Defense and the Department of Transportation in supporting the Treaty and favor its transmission to the Senate at an early date.

Respectfully submitted,

GEORGE P. SHULTZ.

TREATY BETWEEN THE UNITED STATES OF AMERICA AND THE
REPUBLIC OF ICELAND TO FACILITATE THEIR DEFENSE RELATIONSHIP

The Government of the United States of America and the Government of the Republic of Iceland,

Considering that the Government of the United States of America and the Government of the Republic of Iceland have, by the Defense Agreement Pursuant to the North Atlantic Treaty between the United States of America and the Republic of Iceland, signed on May 5, 1951 ("Defense Agreement"), long maintained arrangements for the use of facilities in Iceland in defense of Iceland and thus also the North Atlantic Treaty area;

Noting the significance of the Defense Agreement in United States-Icelandic relations as well as its unique importance to the North Atlantic Treaty Organization;

Recognizing the need for equitable participation by the United States and Iceland in the burdens and benefits of the Defense Agreement;

Taking into account the historic participation of vessels operating for Icelandic shipping companies and vessels of the United States in the carriage of military cargo between the United States and Iceland in support of the defense arrangements established pursuant to the Defense Agreement;

Recognizing that equitable participation of vessels of both countries in the carriage of cargoes for purposes of the Defense Agreement will strengthen the relations of the Parties and further mutual cooperation in essential areas of defense;

Acknowledging the vital importance of securing adequate ocean transportation services between Iceland and the United States with vessels operating for Icelandic shipping companies and vessels of the United States during the period of the Defense Agreement;

Reaffirming the contribution of Iceland to the vital sea link that binds the members of the North Atlantic Treaty Organization;

Have agreed as follows:

ARTICLE I

Transportation services for cargo transported by sea between Iceland and the United States for purposes of the Defense Agreement shall be provided by vessels of the United States and vessels operated by Icelandic shipping companies on the basis of competition between United States flag carriers and Icelandic shipping companies pursuant to this Article. Any such competition shall result in contract awards that ensure that both United States flag carriers and Icelandic shipping companies are able to maintain a viable presence in the trade. To ensure achievement of these objectives, the percentage of cargo transported by sea for purposes of the Defense Agreement that is allocated between vessels operated by Ice-

landic shipping companies and vessels of the United States on the basis of such competition shall be determined by agreement between the United States and Iceland.

ARTICLE II

This Treaty shall be ratified by the Government of the United States of America and the Government of the Republic of Iceland in accordance with their respective constitutional processes. It shall enter into force upon the exchange of instruments of ratification at Reykjavik.

ARTICLE III

(1) This Treaty shall remain in force as long as the Defense Agreement or a successor agreement remains in force. Either Party may, at any time, give notice to the other of its intention to terminate this Treaty. Termination shall take effect 12 months from the date of such notice.

(2) This Treaty shall not preclude the application of measures deemed necessary by either Party to protect its essential security interests.

ARTICLE IV

The provisions of this Treaty and any implementing arrangements concluded pursuant to Article I shall apply notwithstanding any prior inconsistent law or regulation of the United States of America or the Republic of Iceland.

IN WITNESS WHEREOF, the undersigned, being duly authorized for this purpose, have signed this Treaty.

DONE at New York, this 24th day of September, 1986, in duplicate in the English language. The Government of the Republic of Iceland shall provide through diplomatic channels the official translation of the Treaty in the Icelandic language.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

George P. Shultz

FOR THE GOVERNMENT OF THE
REPUBLIC OF ICELAND:

Matthias Thorsen



MEMORANDUM OF UNDERSTANDING BETWEEN THE UNITED STATES OF AMERICA AND THE REPUBLIC OF ICELAND IN IMPLEMENTATION OF THE TREATY TO FACILITATE THEIR DEFENSE RELATIONSHIP

The Government of the United States of America and the Government of the Republic of Iceland,

In implementation of the Treaty between the United States of America and the Republic of Iceland to Facilitate their Defense Relationship, signed at New York on September 24, 1986,

Have agreed as follows:

1. Transportation services for cargo transported by sea between Iceland and the United States for purposes of the Defense Agreement shall be provided by vessels of the United States and vessels operated by Icelandic shipping companies on the basis of periodic competitions between United States flag carriers and Icelandic shipping companies. Each competition shall result in contract awards to both an Icelandic shipping company and a United States flag carrier such that not to exceed 65 percent of the cargo shall be carried by the lowest bidder and the remainder shall be carried by the next lowest bidder of the other country, provided that the lowest bidder shall not be precluded from carrying additional cargo if the next lowest bidder of the other country is unavailable. However, in the event that the next lowest bidder is a United States flag carrier and the United States contracting authority notifies that carrier that it believes that the carrier's bid is unreasonable, the carrier shall submit all data pertinent to its costs of carriage. These data shall be reviewed by the United States contracting authority, which shall award this contract at a fair rate that adequately covers the carrier's costs, assuming normal efficiencies of operation, plus a reasonable profit. If the next lowest bidder is an Icelandic shipping company and the United States contracting authority believes that its bid is unreasonable, the Parties shall consult with a view to establishing a reasonable rate for the contract.

2. This Memorandum of Understanding shall enter into force on the date of entry into force of the Treaty between the United States of America and the Republic of Iceland to Facilitate their Defense Relationship, signed on September 24, 1986. This Memorandum of Understanding shall remain in force as long as that Treaty remains in force.

3. The Parties shall review on an annual basis the operation of this Memorandum of Understanding with a view to enhancing competition and ensuring the viability of the carriers of both countries operating in the trade. This Memorandum of Understanding may be amended by mutual agreement of the Parties at any time.

IN WITNESS WHEREOF, the undersigned, being duly authorized for this purpose, have signed this Memorandum of Understanding.

DONE at New York, this 24th day of September, 1986, in duplicate in the English language. The Government of the Republic of Iceland shall provide through diplomatic channels the official translation of the Memorandum of Understanding in the Icelandic language.

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

Handwritten signature of George A. Shultz in cursive script.

FOR THE GOVERNMENT OF THE
REPUBLIC OF ICELAND:

Handwritten signature of Matthías J. Matthiessen in cursive script.